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Central Intelligence Agency

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RECORD COPYUS-Turkish Relations

Turkey's long border with the USSR and its proximity to the volatile Middle East have made its leaders acutely aware of the need for strong allies who can guarantee its security. In its pursuit of this goal, the Turks have come to rely on the United States as the key source of assistance for their ambitious military and economic modernization programs. [REDACTED]

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Turkey's relationship with the United States, however, is troubled by a number of irritants, some of long standing, some of more recent vintage. While the Turks are quick to call for understanding of their domestic difficulties, they seem unable to grasp -- or unwilling to acknowledge -- the exigencies of the US political system, particularly the role of Congress. They resent in particular what they regard as Congressional intrusions into their internal affairs -- efforts to pass a resolution condemning the massacres of Turkish Armenians early in this century and critical scrutiny of Turkey's actions on Cyprus, its human rights record and the pace of its return to democracy. In addition, some US actions, including the freeze of military assistance after the Turkish intervention in Cyprus in 1974, have left a bitter taste in Turkey. These attitudes are behind Turkey's recent decision to try to replace the current Defense and Economic Cooperation Agreement (DECA) with a new document providing for "improved" US military and economic assistance and "guarantees" of Congressional non-involvement. [REDACTED]

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In addition to purely bilateral issues, US interests in the Aegean region will be affected by the ability of Turkish leaders to complete the difficult transition from military to civilian rule without endangering political stability. Their success in

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this venture will depend in large part on their ability to continue making enough economic progress to dampen social discontent. [REDACTED]

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I. Domestic Political Situation

Since initiating the transition from military to civilian rule with elections in November 1983, Turkey has made considerable progress toward restoring democracy while maintaining political stability [REDACTED]

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--Prime Minister Turgut Ozal won a comfortable 11-seat majority in those elections and has succeeded in retaining military support [REDACTED] In our view, this will allow him to remain politically secure in the near term despite continuing economic difficulties and an increasingly vigorous political opposition.

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--Prime Minister Ozal's firm control was evidenced in a recent cabinet shuffle. In the third such shake-up since coming to power almost two years ago, Ozal replaced a controversial and Islam-promoting Minister of Education with a moderate and accepted the "resignation" of another troublesome cabinet member. The moves should increase discipline within the government. [REDACTED]

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Despite Ozal's formidable strengths, he is troubled by a broad array of problems that could ultimately erode his firm electoral base.

--There are divisions within Ozal's own party among moderates, Islamic fundamentalists, and extreme rightists, forcing him to engage in a difficult balancing act.

--Moreover, the heretofore fragmented leftist opposition is beginning to strengthen. It has taken on new substance with the merger of the two main leftist parties -- the Populist Party (PP) and the Social Democracy Party (SODEP). The Populists hold 114 seats in the 400 member parliament, against 208 for Ozal's Motherland Party (ANAP). The Social Democrats were barred from the 1983 elections, but came in second behind Ozal's party in the 1984 local elections.

--Ozal could also face a challenge to his leadership from the right. Former Justice Party leader Suleyman Demirel, who is banned by the constitution from participating in political activities until 1992, has begun to edge back into the limelight. Demirel has begun to speak out publicly; for example, he recently criticized a speech by

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President Evren. Despite his banned status, Demirel could operate behind the scenes to engineer a serious challenge to Ozal; his hand-picked man heads the Correct Way Party, ANAP's principal rival on the right.

- Finally, a resurgence of terrorism could threaten Ozal's position. Terrorism at the moment is contained but not eliminated. Kurdish separatists in the southeast continue random attacks on military personnel even though their level of activity has been reduced since last year. Other terrorist elements also remain active, as was shown by the assassination of a Jordanian diplomat this summer.
- All of these factors contribute to the possibility that parliamentary by-elections next summer could reduce Ozal's control of the legislature. A poor showing by Ozal's party would encourage defections and reduce the government's current eight-seat majority.

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II. Economic Situation

Ozal is committed to the rationalization and privatization of Turkey's heavily statist economy, a process he sees as essential to Turkey's long-term economic health

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In the short-term, however, his efforts to make the economy more market-oriented have added to inflation and reduced the real incomes of workers.

- Inflation is likely to be more than 40 percent this year (worrisomely high, even though down from last year's 50 percent). The debt service burden will exceed \$3 billion this year, a figure equivalent to about 30 percent of Turkey's foreign exchange earnings. Although there are no reliable indicators of unemployment, we estimate that it stands at about 20 percent.

- On the plus side, economic growth has been fairly strong under Ozal, averaging nearly 5 percent annually for 1984 and 1985. The current account deficit fell by half in the first part of this year compared to the same period last year, and we think improvement is likely to continue as export growth and worker remittances remain strong. Ozal continues to push the privatization program although no state industries have yet been sold to the private sector. Privatizing Turkey's state industries will be a long-term process as many of them are highly inefficient due to poor management and overstaffing.

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[redacted]

Ozal probably feels a need for at least the appearance of some short-term successes, and undoubtedly looks to the United States to help provide them.

--He has consistently advocated "trade instead of aid." He seeks essentially unrestricted textile and steel exports to the United States. Talks on a trade agreement are in progress. Ozal also perceives a need for large-scale foreign investment, and looks to the US as the most likely source (the US is currently the second largest foreign investor in Turkey, after Switzerland).

--Turkey will continue to need sizable amounts of economic assistance as well as continued access to foreign capital. Ankara and the IMF were recently unable to reach agreement on a new stand-by arrangement due to disagreement over the budget deficit and inflation. The two sides still may reach an accord, however, according to IMF officials. These officials remain generally upbeat about the prospects for the Turkish economy. [redacted]

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III. Renegotiating the DECA

Over the near-term, the DECA negotiations will affect most directly the coloration of US-Turkish relations. Though Turkey has no realistic alternative to the United States as an ally and military supplier, disappointing results from the DECA talks would add to the strains on US-Turkish relations. The primary Turkish goal in the negotiations is to obtain as much military assistance as possible to support its program of military modernization [redacted]. We estimate that complete modernization of Turkey's armed forces could cost as much as \$20 billion. The Turks have hinted they probably would settle for about \$5.5 billion over the next five years, or \$1.1 to \$1.2 billion annually, compared to the \$850-900 million in direct assistance they have received annually over the last few years. We think this total probably would be supported by the US-Turkish technical evaluation the Turks have called for. However, the Turks have also folded a range of other economic and political issues into the DECA question, as the terms of the draft treaty presented to us on 27 September make clear.

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--They want assurances that US military assistance levels would be determined only by Turkish force modernization requirements as assessed by the joint technical group they have proposed. Ankara threatens restrictions on Turkish defense cooperation if the United States links aid to Turkey to that for a third country -- meaning Greece. The Turks resent Congressional insistence on a 7:10 ratio in

[redacted]

military assistance to Greece and Turkey, respectively. Such restrictions would presumably involve limitations on base access and operating rights for US forces.

- They want a US pledge of "best efforts" to waive their debt for military purchases. Debt servicing for existing military acquisition loans will exceed \$400 million annually in 1986. US policy is to consider debt waivers only in a multilateral context and in the face of imminent actual default.
- They want substantial economic grants and unrestricted access to US markets for Turkish products.
- They want the term of the treaty to be only one year, with year-to-year extensions thereafter. The Turks presumably hope this will give them leverage to ward off alleged Congressional "interference" in the bilateral relationship -- i.e., proposed "Armenian resolutions" and efforts to link military assistance to Turkish concessions on Cyprus. [redacted]

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In the final analysis, the Turks probably will settle for a side letter or other extra-textual assurances on military assistance levels. As US and Turkish negotiations move toward this likely end-point, however, the Turks are likely to insist on at least airing the full range of bilateral issues they consider important. The Ozal government seems determined to move beyond the historically narrow security-oriented basis for bilateral relations with the United States and has chosen the DECA negotiations as the vehicle for pursuing this. [redacted]

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